

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

Annual Compliance Report, 2014 )

Docket No. ACR2014

**REPLY COMMENTS OF THE ASSOCIATION FOR POSTAL COMMERCE  
(February 13, 2015)**

Pursuant to Order No. 2313, the Association for Postal Commerce (“PostCom”) submits these reply comments on the Annual Compliance Report (“ACR”) for Fiscal Year 2014 filed by the United States Postal Service (“Postal Service”) on December 29, 2014. These comments build on PostCom’s Initial Comments and address information the Postal Service has provided in response to information requests since those comments were filed.

The Postal Service must make a concerted effort to better track and report information regarding the costs of processing and delivering mail. While the Postal Service has been pursuing a number of cost reduction strategies, it has not been able to demonstrate that these strategies have actually resulted in cost savings. In some cases, the cost savings may exist, but are obscured by legacy methods of tracking and reporting costs. In others, the savings may not exist, and the Postal Service may be better served by pursuing alternative strategies. But until the tracking and reporting of costs improves, neither the Postal Service, the Commission, nor the mailing industry can distinguish between the two.

PostCom believes the Commission has an important role to play in ensuring the Postal Service accurately captures and reports the costs it incurs. Not only does the Commission possess the authority to direct the Postal Service to monitor its costs, but the exercise of this authority is essential to the Commission’s ability to fulfill its role as a regulator. Without reliable information on the Postal Service’s costs, the Commission cannot make informed decisions. Accordingly, PostCom requests that the Commission direct the Postal Service to

focus on improving its cost tracking and reporting procedures. While PostCom sets out some specific proposals of particular importance to its members below, we hope that the Commission will act more globally. Moreover, PostCom asks that the Commission make the existence of demonstrable and reportable cost savings a central focus of its evaluations of future Postal Service initiatives.

Below, PostCom suggests a specific area in which the Postal Service should be directed to better monitor the costs of processing and delivering mail. Additionally, PostCom reiterates the request in its Initial Comments that the Postal Service improve the format in which it reports the costs incurred in processing and delivering mail.

#### **I. FSS VS. NON-FSS COSTS**

As PostCom discussed in its Initial Comments, both delivery and processing costs associated with Standard Mail Flats increased from FY 2013 to FY 2014 despite the introduction of Flats Sequencing System (“FSS”) processes. In response to CHIR No. 3, Question 3, the Postal Service states that the increase in the processing costs “could be explained, at least in part, by the implementation of FSS Scheme requirements in January, 2014.” USPS Response to CHIR No. 3, Q. 3 at 2. The Postal Service describes various implementation hurdles, including software system challenges, which may have contributed to increased processing costs. The Postal Service does not, however, relate the specific costs associated with any of these activities, or how these costs compared to the costs of processing Standard Mail Flats before the implementation of FSS or in non-FSS zones.

With respect to delivery costs, which the Postal Service expected to decrease under FSS, the Postal Service claims the cost increase is explained by two factors. First, the Standard Flats volume on city routes declined by a smaller percentage than the originating volume of Standard Flats volume declined. As city carriers handled a higher proportion of Standard Flats, unit costs

increased. Second, Standard Flats FSS volume on city routes decreased by a higher percentage than the originating volume of Standard Flats FSS volume increased. As Standard Flats not processed on FSS equipment must be manually cased, city carriers cased a higher proportion of Standard Flats in FY2014 than FY 2013, resulting in higher in-office unit costs. Response to CHIR No. 3, Q. 3 at 5-6.

What the Postal Service does not explain is *why* these relative declines and increases in FSS and Standard Flats volume occurred. Nor does the Postal Service indicate whether it anticipated these changes when it introduced FSS, and if not, why not. Finally, the Postal Service's response appears to assume that FSS-processed mail would be cheaper to deliver, without providing any support for that claim.

To evaluate whether FSS processing will actually reduce Postal Service costs in the future, the Commission should direct the Postal Service to track the costs associated with processing and delivering Standard Flats in FSS and non-FSS zones. If the Postal Service is not collecting this information, it should be directed to start doing so. If it is already collecting this information, it should be directed to make this information available to the Commission and the industry so that interested parties can evaluate the effectiveness of FSS processing in reducing Postal Service costs. The implementation of FSS has imposed additional mail preparation costs on mailers and service providers. In order to make informed decisions on the future of FSS, the Postal Service, the Commission, and the industry should at least be able to tell whether FSS has at least reduced Postal Service costs proportionately.

## **II. THE COMMISSION SHOULD DIRECT THE POSTAL SERVICE TO IMPROVE THE FORMAT IN WHICH COST ARE REPORTED**

As PostCom explained in its Initial Comments, the ACR does not report, in one place, the costs of the various processing, transportation, and preparation activities associated with each

rate category. That is, while basic cost coverage percentages are displayed, the cost attributed to each rate category from processing, transportation, delivery, and the like can only be discerned by delving into the various worksheets accompanying the filing. This inefficient process leads to multiple rounds of information requests and uncertainty as to whether the various costs associated with and attributable to a rate category have been correctly identified.

A simple change to the format of the ACR would alleviate these problems and allow interested parties to more easily assess trends in the attributable costs associated with all rate categories. The Commission should direct the Postal Service to include in future reports top-level work papers containing, in one place, the attributable costs associated with each rate category broken out by activity. Such a worksheet would enable stakeholders to more easily identify the costs associated with a rate category while also permitting comparisons year over year. Through such comparisons, mailers, the Postal Service, and the Commission can better understand what is driving cost reductions or increases across classes and shapes.

### **III. CONCLUSION**

In its Initial Comments, PostCom explained that what are often called “cost savings” to the Postal Service are actually “cost shifts” to mailers. If the Postal Service cannot track and report the costs associated with various activities with sufficient clarity and sophistication, neither the Commission, the industry, nor the Postal Service itself can identify whether the additional cost burden on mailers is at least offset by reductions in the costs borne by the Postal Service. The implementation of FSS, and the Postal Service’s inability to document savings attributable to this initiative, provide an immediate example of this problem. By directing the Postal Service to improve its tracking and reporting of the costs associated with processing and delivery activities, the Commission will allow all interested parties to better evaluate the success or failure of this and future initiatives.

Respectfully submitted,

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